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**SONALI BASAK, BLOOMBERG:**

We're going to talk more about this ETF with Jerome Schneider. He's the Head of Short-Term Portfolio Management Funding at PIMCO. Thank you so much, Jerome, for joining us. If you take a look at bills, it's interesting because you've seen such incredible volatility at the short end of the curve. How important is it and how do you choose what you will be investing in through this ETF given the range of repo to short-term rates?

**JEROME SCHNEIDER, PIMCO:**

It's a great question. I think when you take advantage of what we have come from and where we're going, we're going to see relatively high short-term rates for a pretty long time. We believe we're on the verge of a less synchronized world, perhaps one that's punctuated with a little bit of volatility. Investors have been looking for higher yielding and how to capture. They're doing that at the front end of the yield curve. So we've seen a good amount of demand in those capital preservation strategies everywhere from owning T-Bills directly to even being in money market funds. What BILZ specifically looks to do is to be an active manager in that space. It looks to try to find optimization and relative value between those high-quality asset classes, be it US treasuries, specifically T-Bills in the front-end agencies, as well as looking at allocating to overnight repurchase agreements which are collateralized by both government securities as well as US treasuries. What's important here is that even though there is a certain amount of high yield at the front end of the yield curve, there is actually some relative outperformance that can be had. What we are seeking to do is bring the expertise which PIMCO has given to its clients in that short-term universe into a high-quality, highly-liquid capital preservation strategy which can hopefully bring some outperformance to those traditional T-Bill type of allocations over the medium term. That's really the trade-off in the opportunities that we see here versus traditional money market and capital preservation strategies.

**MATT MILLER, BLOOMBERG:**

How much outperformance are you looking to harness, Jerome? How much hot sauce do you put on these bills?

**SCHNEIDER:**

Yeah, there's not a lot of hot sauce in the sense that you're adding more risk. Again, it's focused on capital preservation. What we're seeking to do though is getting out of the accounting mindset that money market funds have of buying and holding an asset and holding it to maturity and instead looking at the relative value opportunities consistently between the complexes, between owning T-Bills which can trade either higher yields or lower yields to overnight repurchase agreements or benchmark rates like sulfur. These are opportunities which allow for total returns to actually be higher than you would typically earn in the traditional income sense in a money market fund. As a result, it could be a handful of basis points or it could be tens of basis points over the course of a cyclical horizon. When you're in an environment which is focused on capital preservation uncertainty and balancing that, the active approach is one that brings a little bit more total return potential to our clients and as a result, we're bringing this instrument to the broad-based investor populace.

**ERIC BALCHUNAS, BLOOMBERG:**

So, Jerome, this product makes a lot of sense to me especially for that fee. That's lower than most money market mutual funds. But money market mutual funds grew by about $600 billion in the first two quarters of this year. That's a ton of money. Do you think that institutional investors in particular overrate that fixed dollar nav of a money market fund? What would you say to try to sort of peel some of those off into this fund?

**SCHNEIDER:**

Well, we think that investors have been really focused on that $1 nav as a security, as a safety blanket. But what we're also finding is that with the evolution of the SEC's money market forms, the focus on prime funds continuing to be in the spotlight going forward, that there's a continual rotation that will happen as we get the spotlight shifted from focusing on the credit risks and the liquidity risk for the prime funds to being more conservative stance. But yet, there's a different opportunity set here. Yes, we're focusing on total return, but we're not maneuvering our eyes or shifting our eyes away from that capital preservation. So we just think there's a better way to be in the mindset of capturing the yields of the front end of the yield curve in this environment. So we do think that over time, we're going to be able to differentiate ourselves in this relatively conservative landscape, but do so without sacrificing quality for sure.

**BASAK:**

Jerome, you mentioned at the beginning of this conversation that you expect things to potentially be choppy, that you expect a higher for longer kind of situation. What are some of the things that may happen in the next couple of months that would keep this idea to be true?

**SCHNEIDER:**

Well, what we're finding is that investors are really focused on how to create risk-adjusted returns, which makes sense for an uncertain economic outlook. And in that landscape, this is exactly where active management plays out, having the resources to underwrite credit risk, looking at different, more diversified portfolio approaches. This is exactly what PIMCO ETFs has done over the past few years in being very deliberate in evolving our platform to really focus on multi-sector strategies, active management approaches, where we think that there's not only better solutions, which our clients can afford, but also mirror those with client demands. And that's why we have exactly done that, offering six new ETFs in the active management landscape over the past almost 18 months or so. From that perspective, though, I think what we have to do on a go-forward basis is look at the economic landscape. Sure, things like inflation are still a question mark. We have a Federal Reserve, which is going to be incredibly data dependent. And that data dependence translates to hopefully our clients having optionality to maneuver and pivot and create a more balanced approach to their asset allocation resources. And that includes taking advantage of the higher yields across the yield curve, not just at the front end that we're highlighting in bills, but going on beyond that in terms of our new products like PYLD, et cetera. And so from that perspective, we think that this uncertainty and the volatility which may emanate as we get later in the year from this uncertainty might create opportunities to be a little bit more flexible along the way.

**MILLER:**

Jerome, thanks so much for joining us. Pleasure having you here. Jerome Schneider of PIMCO talking to us about bills.